

FEDERAL ELECTION COMMISSION
999 E Street, N.W.
Washington, D.C. 20463

FIRST GENERAL COUNSEL'S REPORT

MUR: 4749
DATE COMPLAINT FILED: 5/20/98
DATE OF NOTIFICATION: 5/22/98
DATE ACTIVATED: 9/10/98

STAFF MEMBER: Robert M. Knop
Xavier K. McDonnell

COMPLAINANT: James M. Casso

RESPONDENTS: Napolitano for Congress, and
Yolanda Dyer, as treasurer
Grace Flores Napolitano
Luigi A. Vernola
Harvey Englander

RELEVANT STATUTES: 2 U.S.C. § 441a(a)(1)(A)
2 U.S.C. § 439a
2 U.S.C. § 441a(f)
2 U.S.C. § 434(b)(2)(G)
11 C.F.R. § 100.7(a)(1)(iii)(A), (B)
11 C.F.R. § 110.10(a), (b)
AO 1995-8
AO 1991-10
AO 1986-45
AO 1984-60
CAL. FAM.CODE §§ 751, 760, 1100, 1101

INTERNAL REPORTS CHECKED: Disclosure Reports

FEDERAL AGENCIES CHECKED: None

I. GENERATION OF MATTER

This Office received a complaint from James M. Casso (the "Complainant") on
May 20, 1998, indicating potential violations of the Federal Election Campaign Act ("FECA" or

the "Act") by Napolitano for Congress and Yolanda Dyer, as treasurer (the "Committee"), by Grace Flores Napolitano ("Napolitano" or the "candidate"), a successful candidate for Congress from California's 34th Congressional district, by Luigi A. Vernola, a contributor to Napolitano's campaign, and by Frank Napolitano, the candidate's husband. The complaint alleges various violations in connection with several loans reportedly made by the candidate to the Committee and the acceptance of an excessive in-kind contribution in the form of office space. This Office received unsworn responses to the complaint from all respondents.¹ Given the complexity of the Complainant's allegations, this Report will separately analyze issues concerning: the source of loans made to the Committee; the terms of one of those loans; and the allegedly excessive in-kind contribution made by Luigi A. Vernola.

II. FACTUAL AND LEGAL ANALYSIS

A. Applicable Law

The Act limits the amount that persons other than multicandidate committees may contribute to any candidate for federal office to \$1,000 per election. 2 U.S.C. § 441a(a)(1)(A). Candidates and their authorized committees are prohibited from knowingly accepting contributions in excess of the limitations at Section 441a. 2 U.S.C. § 441a(f).

The term "contribution" includes any gift, subscription, loan, advance, or deposit of money or anything of value made by any person for the purpose of influencing a federal election. 2 U.S.C. § 431(8)(A)(i). The term "anything of value" includes all in-kind contributions and the provision of any goods or services without charge, or at a charge which is less than the usual and

¹ The Office of the General Counsel received written responses to the complaint from: (1) the Committee and the Candidate, dated June 24, 1998; (2) Frank Napolitano, dated November 19, 1998; (3) Luigi A. Vernola, dated June 12, 1998; and Harvey A. Englander, dated June 4, 1998.

normal charge. 11 C.F.R. § 100.7(a)(1)(iii)(A). The "usual and normal" charge is the price of the goods in the market from which they ordinarily would have been purchased at the time of the contribution, i.e., the fair market value. 11 C.F.R. § 100.7(a)(1)(iii)(B). See also Advisory Opinions ("AO") 1995-8, 1991-10, n.1, 1984-60.

Commission regulations permit a candidate to use his or her personal funds to make unlimited loans ("candidate loans") to his or her campaign committee. 11 C.F.R. § 100.7(a)(1). A candidate's "personal funds" include "[a]ny assets which, under applicable state law, at the time he or she becomes a candidate, the candidate had legal right of access to or control over, and with respect to which the candidate had either . . . [l]egal and rightful title, or . . . [a]n equitable interest." 11 C.F.R. § 110.10(b)(1). "Personal funds" also is defined to include "[s]alary and other earned income from bona fide employment" and "dividends and proceeds from the sale of the candidate's stocks or other investments." 11 C.F.R. § 110.10(b)(2). All candidate loans must be reported in accordance with 2 U.S.C. § 434(b)(2)(G). California law states that both spouses in a marriage have an equal interest in community property. CAL. FAM. CODE § 751.

While candidates are permitted to charge their campaign committees interest for any loans they have made to their committees from personal funds, the rate of interest that candidates charge to their committees must be "commercially reasonable." AO 1991-9, AO 1985-46. If the rate of interest on a candidate loan is so high that it is not commercially reasonable, it will be considered a conversion of campaign funds for personal use in violation of 2 U.S.C. § 439a. AO 1991-9, AO 1985-46.

B. Complaint, Responses & Analysis

1. Source of the Loans

a. Complaint

The complaint questions the source of funds used to make three candidate loans totaling \$180,000 in March, 1998. In reports filed with the Federal Election Commission (the "Commission"), the Committee lists three loans from Napolitano's personal funds totaling \$180,000 as follows:

DATE	AMOUNT	REPORTED SOURCE	INTEREST RATE
3/16/98	150,000	Candidate's personal funds	March 16 - May 2, 1998 = 0% May 3, 1998 - paid = 18%
3/30/98	15,000	Candidate's personal funds	0%
3/31/98	15,000	Candidate's personal funds	0%
TOTAL:	\$180,000		

The Complainant alleges that the loans were not derived from the candidate's "personal funds," as reported by the Committee, but from other sources. The complaint suggests a number of possible sources for the loans, including the candidate's husband, Frank Napolitano, a bank loan, a pension fund that allegedly must be repaid and local real estate developers.

The Complainant alleges that at least some of the funds loaned to the Committee belonged to the candidate's husband because Napolitano was reported to have used pension funds to make the loans. See Whittier Daily News Article dated May 2, 1998, Attachment 1. According to the Complainant, under California's community property laws, pension funds in one spouse's name are actually owned equally by both spouses. The Complainant argues that, if Napolitano used more than "her" portion of the pension funds to make loans to the Committee, any amount in excess of the candidate's share constituted an excessive contribution from the candidate's husband.

The Complainant also suggests that Napolitano may have obtained a bank loan for the campaign and misreported the bank loan as a candidate loan on the Committee's disclosure reports. The Complainant's basis for this allegation is a statement reportedly made by the candidate's campaign consultant, Harvey Englander, that Napolitano must pay a penalty for borrowing funds from her pension to finance her campaign. See Attachment 1. The Complainant concedes that he does not know whether Napolitano will be required to pay back the funds loaned to the Committee, but he states that, if she is, the source of the funds loaned to the campaign was a bank loan, not Napolitano's personal funds. As such, the Complainant argues, the Committee committed a reporting violation by reporting the loans as candidate loans rather than as bank loans.

According to the complaint, other possible sources for the funds loaned to the Committee include local real estate developers. The complaint suggests that "[g]iven Napolitano's propensity for borrowing money to finance her campaigns for state and local offices from local developers, the FEC should investigate the actual origins of the loans [she reported as being made from personal funds] to ensure the funds are from Napolitano, not third parties." The complaint does not provide any further information in support of this allegation.

b. Responses

In their joint response, the Committee and the candidate (collectively, the "Respondents") deny that the source of the loaned funds was someone or something other than the candidate's personal funds. According to the Respondents, the \$180,000 loaned to the campaign in March, 1998, came from three principal sources, all of them containing only the candidate's personal funds: \$150,000 from an employee stock option plan ("ESOP") in the candidate's name and \$30,000 from a credit union account and a personal savings account in the candidate's name.

Concerning the \$150,000 loaned to the Committee on March 16, 1998, (the "\$150,000 loan"), the Respondents claim that shortly before entering the Democratic primary contest for the 34th Congressional district, Grace Napolitano liquidated an ESOP which contained in stock benefits she earned between 1970 and 1992 as an employee of the Ford Motor Company. To support this claim, the Respondents attached to their response a Fidelity Investments account statement dated February 27, 1998, which shows the withdrawal of from an ESOP in Napolitano's name. According to the Respondents, after liquidating the ESOP, Napolitano loaned her campaign \$150,000 and deposited the rest into an individual retirement account ("IRA") in Napolitano's name.

Regarding whether Napolitano used her husband's portion of the ESOP funds in making the \$150,000 loan, the Respondents and Frank Napolitano concede that the candidate's husband may have a community property interest in that portion of the ESOP earned by his wife while they were married, from 1982 to 1998. Despite this concession, the Respondents and Frank Napolitano claim that the ESOP funds are, nevertheless, the candidate's "personal funds" within the meaning of 11 C.F.R. § 110.10(b)(1) because, at all times: (1) Napolitano had legal access to, control over, and rightful title to the funds; (2) Napolitano had sole authority to dispose of the ESOP funds; and (3) Napolitano held the ESOP funds in her name alone and was not required to obtain her husband's consent to the withdrawal or use of the funds. The Respondents indicate that Napolitano will have to pay a penalty for withdrawing funds "early" from the ESOP, but they claim that Napolitano is not obliged to restore the borrowed funds and that the source of the funds was the ESOP and not a bank loan.

The Respondents claim that the additional \$30,000 loaned to the Committee in March 1998, was derived from a credit union account and a personal savings account in the

candidate's name which contained per diem payments from the State of California (the candidate was a State Assemblywoman) and retirement income from the Ford Motor Company.

The Respondents claim that the \$30,000 in the credit union and personal savings accounts constituted the candidate's "personal funds" within the meaning of 11 C.F.R. § 110.10(b)(1).

The Respondents contend that both accounts contained only funds earned by Napolitano. While conceding that Frank Napolitano may have a community property interest in any funds in the two accounts that were earned by the candidate during the marriage, the Respondents, nevertheless, claim that the funds were "personal funds" because: (1) the accounts were held in the candidate's name alone; and (2) Frank Napolitano's consent was not required for the withdrawal or use of the funds in these two accounts.

c. Analysis of Source of \$180,000 Loaned to Committee

The sources of the loans at issue appear to be the types of assets explicitly listed in the definition of personal funds at 11 C.F.R. § 110.10(b)(2). Specifically, the \$150,000 loan was derived from an ESOP which was in the candidate's name alone and was accumulated during her employment with the Ford Motor Company, and thus appears to be "income from bona fide employment" or "proceeds from the sale of the candidate's stock or other investments." *Id.* Additionally, the funds in the credit union and personal savings accounts, totaling \$30,000, which assertedly were also in the candidate's name alone, appear to have contained "income from bona fide employment" with the State of California and the Ford Motor Company. *Id.* Thus, the funds used to make the \$180,000 worth of loans appear to have been the candidate's "personal funds" within the meaning of 11 C.F.R. § 110.10(b)(2).

The Complainant ignores Section 110.10 (b)(2), relying instead on the alternative definition set out in Section 110.10(b)(1). Section 110.10(b)(1) provides that personal funds are

any assets which, under applicable state law, the candidate has legal right of access to or control over; and with respect to which the candidate has either legal and rightful title or an equitable interest. The Complainant argues that the loans totaling \$180,000 were not derived from the candidate's "personal funds" because, under California's community property law, the candidate's husband had a 50% interest in the candidate's ESOP and other assets to the extent that they were acquired by the candidate during the marriage. CAL. FAM. CODE §§ 751, 760. These assets, however, were in the candidate's name alone and while it is true that under California's community property law her husband had some interest in that property, his interest is analogous to an inchoate or future interest such as a dower or curtesy. We further note that California law provides that either spouse may manage, control, and even dispose of community personal property without the consent of the other. *See* CAL. FAM. CODE § 1100(a). Here, the candidate, in the course of managing personal property which was in her name alone, did not dispose of such property but instead used it as source of a loan to her campaign. In short, as it appears that the candidate had control over these assets and that she had legal title to them at the time they were used to make the loans in question, the entire \$180,000 should be considered the candidate's "personal funds" within the meaning of 11 C.F.R. § 110.10(b)(1). Accordingly, it does not appear that Frank Napolitano made excessive contributions or the Committee knowingly accepted them, in connection with the three loans totaling \$180,000.²

Concerning the issue of whether the source of the \$150,000 was a loan from a bank or local real estate developers, this Office has reviewed the response from the candidate and the

² We further note that because the candidate was married to Mr. Napolitano for only the last ten of the twenty-two years she was employed by Ford, it would appear that a substantial portion of the assets related to her employment at Ford were acquired prior to the marriage and thus not subject to community property law.

Committee, including the supporting documentation, and concludes that the source of the funds loaned to the Committee was the cashed-out ESOP as the Respondents claim. The Fidelity Investments account statement that was submitted as an attachment to the response indicates that, on February 27, 1998, _____ was withdrawn from an ESOP in Napolitano's name.

Information on the Ethics in Government Act statement ("EIGA Statement") that Napolitano filed with the Clerk of the United States House of Representatives is consistent with the Respondents' claim that the funds in the ESOP were withdrawn and that _____ was deposited into an IRA. See Attachment 2.³ Regarding the two additional loans totaling \$30,000 that were made in March, 1998, the Respondents contend that the candidate used a credit union account and a personal savings account containing retirement income from the Ford Motor Company and per diem payments from the State of California to make the loans. Information on the candidate's EIGA Statement is consistent with the Respondents' claim that Napolitano earned a sufficient amount from these two sources to make these loans totaling \$30,000. Attachment 2.⁴

2. Specific Terms of the \$150,000 Loan
a. Complaint

The Complainant also makes allegations concerning the terms under which one of the candidate loans was made.⁵ The complaint alleges that the 18 percent interest rate charged on the

³ According to the EIGA Statement, as of April 15, 1998, the value of the ESOP was \$0 and the value of the IRA was between \$50,001 and \$100,000.

⁴ The candidate reported earning _____ in retirement and per diem income between January 1, 1997, and April 15, 1998. This was in addition to a salary of _____ earned during the same period. Although the credit union and savings accounts from which the \$30,000 was derived were not listed on the candidate's EIGA statement, we note that such accounts were not required to be disclosed if the total amount was less than \$5,001, at the time of the filing of the EIGA statement which, in this case, was after the loans were made.

⁵ In making allegations about the loan terms, the Complainant states that the candidate reported that the 18 percent interest rate applied to the entire \$180,000 she loaned to the Committee. After reviewing the Committee's reports, it is clear that the 18 percent interest rate only applied to the \$150,000 loan.

\$150,000 loan is so high that it is not "commercially reasonable." The Complainant also alleges that it was impermissible for the candidate to change the interest rate on the \$150,000 loan from zero percent for the period between March 16, 1998 and May 2, 1998 to eighteen percent from May 3, 1998 until the loan is repaid. See chart on page 4.

b. Response

The Respondents concede that an 18 percent interest rate is "high" but claim that it is not commercially unreasonable because: (1) the rate is consistent with interest rates on other unsecured loans such as credit card advances and lines of credit; (2) the rate is comparable to unsecured personal loan rates of Wells Fargo Bank (16.77 percent) and Union Bank of California (16.57 percent);⁶ (3) neither Wells Fargo Bank nor Union Bank of California would have agreed to an unsecured loan as large as \$150,000; (4) the candidate is entitled to take into account the high risk of loss associated with loaning funds to the Committee because, in the event of an election loss, the loaned funds are "virtually unrecoverable"; and (5) Commission regulations and advisory opinions do not provide standards or criteria for determining what constitutes a "commercially reasonable" rate in the context of loans from candidates' personal funds. The Respondents argue that the 18 percent interest rate charged on the \$150,000 loan fits within the "broad" outlines of the term "commercially reasonable" given these considerations. In addition, in a news article, the Committee's campaign consultant, Harvey Englander, addressed this allegation by reportedly suggesting that the candidate deliberately chose an interest rate that would allow her to recoup the penalty she would have to pay for withdrawing funds early from the ESOP/IRA. See Attachment 1.

⁶ At this stage of the matter we have not corroborated that these were the rates prevailing at the time the \$150,000 loan was made.

Concerning the allegation that the change in the interest rate on the \$150,000 loan from zero to eighteen percent was impermissible, the Respondents argue that the complaint misconstrues FECA's reporting requirements and advisory opinions. The Respondents claim that nothing in Advisory Opinions 1991-9 and 1986-45 prohibits candidates from changing an interest rate on a candidate loan prospectively. According to the Respondents, the only requirements relevant to the reporting of the \$150,000 are that the Committee is obliged to disclose the source and terms of the loan in a timely manner and that the Committee must continue reporting the loan until the loan is extinguished. The Respondents claim that the Committee has fulfilled both of these requirements. The Respondents also claim that the reason for the interest rate change is that the candidate was hoping to raise enough money early in the primary so that she could re-deposit the \$150,000 she withdrew from the ESOP/IRA into another qualified account to avoid the early withdrawal penalty. According to the Respondents, the deadline for re-depositing the funds was May 2, 1998, which is why the interest rate was scheduled to change from 0 to 18 percent on May 3, 1998.

c. Analysis of Terms of \$150,000 Loan

Concerning the allegation that the 18 percent interest rate is so high that it amounts to a conversion of campaign funds for personal use, this Office agrees with the Complainant and the Respondents that the rate is high. Nevertheless, if the statement made by the Committee's campaign consultant and reiterated more generally by the Committee, that Napolitano must pay an 18 percent penalty for withdrawing the ESOP funds early, is accurate, then the 18 percent charged to the Committee appears to be the cost of the \$150,000 loan. Thus, in this particular context, it does not appear that the 18 percent interest rate for the \$150,000 loan amounts to a

conversion of campaign funds to the candidate's personal use or that the \$150,000 loan was made on commercially unreasonable terms.⁷

Concerning the allegation that it was not permissible for the candidate to change the interest rate on the \$150,000 loan from 0 percent to 18 percent, we note initially that this increase in the interest rate was agreed to from the outset and was disclosed as such on the Committee's first report. In any event, one advisory opinion explicitly states that candidates may renegotiate the terms of candidate loans as long as the loans have not already been repaid. See AO 1991-9. Thus, it does not appear that Napolitano impermissibly changed the loan's interest rate over time.

3. In-kind Contribution from Luigi A. Vernola
a. Complaint

The Complainant also alleges that Luigi A. Vernola, ("Vernola") made and the Committee knowingly accepted an excessive in-kind contribution. According to reports filed with the Commission, the Committee paid no rent for office space during the primary. Instead, it was given free use of a building owned by Vernola, located at 12123 East Firestone Boulevard in Norwalk, California. On reports filed with the Commission, the Committee listed four \$250 in-kind contributions from Vernola for the free use of the space in March, April, May, and June, 1998. According to the Committee's reports, Vernola's total in-kind contribution was \$1,000, the maximum contribution allowed by law.

The Complainant alleges that the value placed by the Committee on the free rent from Vernola is much less than the fair market value of rental space in the area. The Complainant bases this allegation on the size and location of the office space and on the estimates of local real

⁷ Given the low interest rates now generally available, the 18 percent interest rate does appear excessive.

estate professionals he claims to have consulted.⁸ Accordingly, the Complainant alleges that the difference between the fair market value for the space leased by the Committee and the value placed on that space by the Committee constitutes an excessive in-kind contribution from Vernola to the Committee. The complaint alleges that because the value of the property was in excess of \$250 per month for four months, Vernola's total contribution to the Committee for the primary was in excess of the \$1,000 maximum individual contribution allowed under FECA.

b. Responses

The Respondents contend that the Committee's use of the subject property was appropriately valued. The Respondents claim to have based the valuation of the subject property on the owner's estimate of the property's value and on the property's size, location, and condition. The Respondents claim that it is small, consisting of approximately 800 square feet, that it is located in a neighborhood with many abandoned and run-down buildings, and that its condition makes it unsuitable for commercial occupancy.⁹ The Respondents submitted photographs of the property along with their response.

The owner of the building, Luigi A. Vernola, pointing to many of the same factors as the Respondents, also claims that the Committee's use of the subject property was appropriately valued considering its size, location, and condition. See Vernola's Response to the Complaint. Vernola also states his intention to obtain an opinion on the fair rental value of the subject property from a local real estate professional and he promised to furnish the Commission with a

⁸ The Complainant did not provide the Commission with any estimate on the fair market value of the subject property from local real estate professionals.

⁹ The Respondents claim that the space has a concrete slab floor with no carpeting installed, unpainted outside walls, unfinished inside windows, missing ceiling panels, inside walls with paint splattered on them, a bathroom that was not available for the first ten days of the Committee's occupancy, and no parking available for the office, except in front of the building.

copy of said opinion once obtained. However, as of the date of this report, the Commission has not received any opinion from a real estate professional on the value of the subject property.

c. Analysis of In-Kind Contribution

Applying the rule set forth in the regulations, the "usual and normal charge" for rent would mean the rent for the unit in the market from which the unit would ordinarily have been rented at the time the charge was made. 11 C.F.R. § 100.7(a)(1)(iii)(B). Thus, if the subject property was undervalued by the Committee on its disclosure reports, Vernola made and the Committee knowingly accepted an excessive in-kind contribution given that the disclosure reports indicate that, over the course of the primary campaign, Vernola made four in-kind contributions that totaled \$1,000.

The facts at hand call into question the responses' assertions that the subject property was fairly valued. First, by valuing the subject property at \$250 per month, Vernola's total in-kind contribution to the Committee over the four month primary was exactly \$1,000, the maximum individual contribution that Vernola could lawfully contribute to the candidate's campaign. One inference from this is that Vernola set the value of the subject property to correspond to the applicable contribution limit and did not take into account the usual market factors of size, location, and comparable market prices. Supporting this inference is Vernola's history of providing financial assistance to Napolitano during her prior state campaign, as reported by the candidate herself on the EIGA Statement, Attachment 2, and as noted in a newspaper article. See Attachment 3. Second, although Vernola claimed that he would provide the Commission with an appraisal demonstrating that the property was worth \$250 per month, his failure to do so provides another basis for the inference that the value of the subject property was greater than reported. Third, Vernola has not provided any information about the rental history of the subject

property or what the range of property rental values was in the local area which would assist this Office in determining whether the subject property was fairly valued.

Given that the responses leave inferences pointing to the possibility that the rental value of the subject property may have exceeded \$250 per month, it appears that an excessive in-kind contribution may have resulted. Accordingly, this Office recommends that the Commission find reason to believe that Vernola violated 2 U.S.C. § 441a(a)(1)(A) and that the Committee violated 2 U.S.C. § 441a(f). However, given that the rental agreement appears to have ended after four months when the campaign moved to a different location, the total violative amount at issue does not appear to be substantial. Accordingly, in keeping with the Commission's priorities and limited resources, this Office recommends that the Commission take no further action. This Office intends to send a letter of admonishment to these Respondents.

Finally, because the Office of the General Counsel has no information that Harvey Englander committed any actual or potential violations of the Act, this Office recommends that the Commission find no reason to believe that he violated FECA with respect to this matter. Moreover, in light of the foregoing recommendations, this Office recommends that the file in this matter be closed.


III. RECOMMENDATIONS

1. Find reason to believe that Luigi A. Vernola violated 2 U.S.C. § 441a(a)(1)(A) with respect to the making of an excessive in-kind contribution, but take no further action.
2. Find reason to believe that Napolitano for Congress violated 2 U.S.C. § 441a(f) with respect to its receipt of an excessive in-kind contribution from Luigi A. Vernola, but take no further action.
3. Find no reason to believe that Frank Napolitano violated 2 U.S.C. § 441a(a)(1)(A).
4. Find no reason to believe that Napolitano for Congress violated 2 U.S.C. § 441a(f) with respect to its receipt of candidate loans.

5. Find no reason to believe that Grace Flores Napolitano violated 2 U.S.C. § 439a.
6. Find no reason to believe that Harvey Englander violated the Act with respect to this matter.
7. Approve the appropriate letters.
8. Close the file.

Lawrence M. Noble
General Counsel

2/28/99
Date

BY: 
Lois G. Lerner
Associate General Counsel

Attachments:

1. Whittier Daily News article, dated May 2, 1998
2. Ethics in Government Act Statement filed by Grace Flores Napolitano
3. Los Angeles Times article, dated April 5, 1998

Only private-practice doctors now offer the service locally. The center will be the first clinic in the Whittier area to do so.

While there were more protesters than usual Friday, they were not disruptive, clinic workers said. Most are members of

Sasaki said he did not want to be confused with the service to his planned parenthood.

As long as that child is in the hands of what they call the hospital, she said, "I am concerned is intimidation of our people turn to clinic, A6

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Napolitano's Self-Loan under fire



Assemblywoman Grace Napolitano, left, has come under fire by opponent James Casso for paying herself an 18 percent interest rate on a \$180,000 campaign loan.

SECRET
INSTRUMENTS
CRIMINAL
INVESTIGATION

By Mike Spazio
Staff Writer

Assemblywoman Grace Napolitano, D-Norwalk, has loaned her own congressional campaign \$180,000 and will pay herself back at a rate of 18 percent.

That latter decision has become the subject of controversy in her June 2 primary race against Democrat James Casso of West Covina. Casso is also chief of staff to outgoing Rep. Esteban Torres, D-Pico Rivera.

"Under federal law, you can

loan money to your campaign, but paying yourself 18 percent interest on a loan is outrageous," said Casso who has raised about \$100,000 in the reporting period that ended March 31.

Reports weren't due until April 15 and just recently became available over the Internet.

Casso, who is also the son-in-law of Torres, said that Napollitano could make \$32,000 in interest a year without paying off a cent of the principle.

There's no incentive to pay

Please Write to INTEREST / AG

INTEREST

Challenger calls loan rate outrageous

Continued from A1

off the loan because she'll be paying herself interest," he said.

While Napolitano didn't return four phone calls over a four-day period, her campaign consultant, Harvey Englander, said she was told to take the interest.

"Her accountant told her to put that down," Englander said. "She pays a huge penalty for taking that money out of her retirement account. That interest rate is the equivalent to what it takes with the penalty."

Federal-election law states that a candidate may loan personal funds and "may charge interest at a commercially reasonable rate."

But the law doesn't define what is reasonable.

"It would depend on the circumstances," said Kelly Huff, spokeswoman for the Federal Election Commission. "If we were to see something like 50 percent, that would be unreasonable."

If a candidate or another party were to file a complaint,

the FEC would review it. Huff said.

When Napolitano ran for the Assembly in 1992, she borrowed nearly \$100,000 from former Norwalk Councilman Luigi Vernola. About \$10,000 of the loan remains unpaid.

Napolitano loaned her campaign the money because she wasn't relying on what Englander called special-interest money.

In the case of Casso, Englander cited \$5,000 in contributions from people who work for or are linked with Univision, a Spanish-language television network, and \$2,000 from people affiliated with Parking Company of America, which has federal parking contracts.

Casso said his contributions came from people who live or work in this community.

"I don't understand the problem there," he said. "I took money from people who happen to be employed by those various entities. They're honorable people. She's trying to drag their names through the mud."

Casso received a total of 10 contributions — none larger than \$1,000, the federal maximum for individuals — including 68 from Southern California.

ATTACHMENT

Page 2 of 2

CLINIC

Abortion foes pray.

Doctors have tried to attract patients, but not recently. The clinic already offers birth control, testing for sexually transmitted disease, prenatal care.

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VIA UPS OVERNIGHT DELIVERY

The Clerk, U.S. House of Representatives
Legislative Resource Center
B-106 Cannon House Office Building
Washington, DC 20515-6612

Re: United States House of Representatives
Financial Disclosure Statement, Form B

Greetings:

To follow-up Grace F. Napolitano's Amended Financial Disclosure Statement, Form B, submitted on June 23, 1998, please be advised that only Schedules I, II and III were amended. Schedules IV, V and VI were not amended.

The "Preliminary Information" section on page 1 of Ms. Napolitano's Amended Financial Disclosure Statement was completed to reflect with an "x" in the "yes" column the schedules that were being amended (i.e., Schedules I, II and III). An "x" in the "no" column of the "Preliminary Information" section of page 1 of Ms. Napolitano's Amended Financial Disclosure Statement was intended to reflect the schedules that were not being amended (i.e., Schedules IV, V and VI.)

If you have any questions, please do not hesitate to contact me directly.

Very truly yours,

OLSON, HAGEL, LEIDIGH,
WATERS & FISHBURN, LLP



TRACY L.P. SHOWS

TLPS:dar

cc: Grace Napolitano

92075-045HOUSE.LTS

Plaza Towers
555 Capitol Mall, Suite 1425
Sacramento, CA 95814-4602

Telephone [916] 442-2952
Facsimile [916] 442-1280

ATTACHMENT

Page 1 of 5

99-011-391-1504

UNITED STATES HOUSE OF REPRESENTATIVES
FINANCIAL DISCLOSURE STATEMENT

Period Covered: January 1, 1997 - April 15, 1998

GRACE F. NAPOLITANO

12946 E. Belcher Street

Norwalk, CA 90605

Filer Status: ☒ Candidate for the House of Representatives
District: 34th

New officer or employee: ☐ Employing Office: _____

(Full Name)

(Mailing Address)

Daytime Telephone:

(916) 445-0965

Date of Election: 6/2/98

Check if Amendment: ☒

FORM B
For use by candidates for the office of Member and new employees

RECEIVED
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JUN 23 1998

(Office Use Only)

In all sections, please type or print clearly in black ink.

PRELIMINARY INFORMATION -- ANSWER EACH OF THESE QUESTIONS

Did you or your spouse have "earned" income (e.g., salaries or fees) of more than \$200 from any source in the reporting period? If yes, Complete and Attach Schedule I.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Did you hold any reportable positions on or before the date of filing in the current calendar year? If yes, Complete and Attach Schedule IV.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Did you, your spouse, or a dependent child receive "unearned" income of more than \$200 in the reporting period or hold any reportable asset worth more than \$1,000 at the end of the period? If yes, Complete and Attach Schedule II.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Did you have any reportable agreement or arrangement with an outside entity? (New employees only; not candidates.) If yes, Complete and Attach Schedule V.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Did you, your spouse, or a dependent child have any reportable liability (more than \$10,000) during the reporting period? If yes, Complete and Attach Schedule III.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Did you receive compensation of more than \$5,000 from a single source in the two prior years? If yes, Complete and Attach Schedule VI.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Each question in this part must be answered.		Attach the appropriate schedule for each "Yes" response.	

EXCLUSION OF SPOUSE, DEPENDENT, OR TRUST INFORMATION -- ANSWER EACH OF THESE QUESTIONS

TRUSTS--Details regarding "Qualified Blind Trusts" approved by the Committee on Standards of Official Conduct and certain other "excepted trusts" need not be disclosed. Have you excluded from this report details of such a trust benefiting you, your spouse, or a dependent child? (See instructions, page 10.)	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
EXEMPTION--Have you excluded from this report any other assets, "unearned" income, transactions, or liabilities of a spouse or dependent child because they meet all three tests for exemption? (See instructions, page 11.)	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

CERTIFICATION -- THIS DOCUMENT MUST BE SIGNED BY THE REPORTING INDIVIDUAL AND DATED

This Financial Disclosure Statement is required by the Ethics in Government Act of 1978, as amended (5 U.S.C. app. 6, § 101 et seq.). The Statement will be available to any requesting person upon written application and will be reviewed by the Committee on Standards of Official Conduct. Any individual who knowingly and willfully falsifies, or who knowingly and willfully fails to file this report may be subject to civil and criminal sanctions (See 5 U.S.C. app. 6, § 104 and 18 U.S.C. § 1001).

SIGNATURE OF REPORTING INDIVIDUAL
Grace F. Napolitano

DATE (Month, Day, Year)
June 19, 1998

Let the source, type, and amount of earned income, including honoraria, from any source (other than your current employment by the U.S. Government) totaling \$200 or more during the current year to the filing date and, separately, the preceding calendar year. For a spouse, only the source, not amount of earned income needs to be reported, except for honoraria, for which the source and amount must be reported. See instructions, page 12.

[illegible]

For more information, please call 1-800-368-3688.

Reporting Individual's Name
GRACE F. NAPOLITANO

Continuation Sheet (if needed)

BLOCK A Asset and/or Income Source	BLOCK B Valuation of Asset		BLOCK C Income					
	Reporting Date Value (X)	Indicate if alternative valuation method (X) Attach explanation	Type of Income (X)	Category of Amount of Income (X)				
					Current Year to Date			
					Preceding Year			
None	A	Less than \$1,001	I	Less than \$201	None	I	Less than \$201	
	B	\$1,001 - \$15,000	II	\$201 - \$1,000	I	\$201 - \$1,000	II	\$201 - \$1,000
	C	\$15,001 - \$50,000	III	\$1,001 - \$2,500	II	\$201 - \$1,000	III	\$2,501 - \$5,000
	D	\$50,001 - \$100,000	IV	\$2,501 - \$5,000	III	\$5,001 - \$15,000	IV	\$15,001 - \$50,000
	E	\$100,001 - \$250,000	V	\$5,001 - \$15,000	IV	\$15,001 - \$50,000	V	\$50,001 - \$100,000
	F	\$250,001 - \$500,000	VI	\$15,001 - \$50,000	V	\$50,001 - \$100,000	VI	\$100,001 - \$1,000,000
	G	\$500,001 - \$1,000,000	VII	\$50,001 - \$100,000	VI	\$100,001 - \$1,000,000	VII	\$1,000,001 - \$10,000,000
	H	Over \$1,000,000	VIII	Over \$1,000,000	VIII	Over \$1,000,000	VIII	Over \$1,000,000
			DIVIDENDS					
			RENT					
			INTEREST					
			CAPITAL GAINS					
			EXCEPTED TRUST					
			QUALIFIED BLIND TRUST					
			OTHER (Specify)					

FIDELITY INVESTMENTS IRA

FORD MOTOR COMPANY SAVINGS
AND STOCK INVESTMENT PLAN

09.04.2014 15:57

SCHEDULE III - LIABILITIES

Reporting Individual's Name
GRACE F. NAPOLITANO

Report liabilities of over \$10,000 owed to any one creditor at any time during the reporting period by you, your spouse, or dependent child. Check the highest amount owed during the reporting period. Exclude a mortgage on your personal residence (unless it is rented out); loans secured by automobiles, household furniture, or appliances; and liabilities owed to a spouse, child, parent, or sibling of the reporting individual or the reporting individual's spouse. For further information, see Instructions, page 21.

S, DC, JT	Creditor	Type of Liability	Category of Amount or Value (X)						
			B	C	D	E	F	G	H
	Example: First Bank of Wilmington, Delaware	Mortgage on 162 Main Street, Dover, Del.	\$10,001 - \$15,000	\$15,001 - \$50,000	\$50,001 - \$100,000	\$100,001 - \$500,000	\$500,001 - \$1,000,000	\$1,000,001 - \$5,000,000	\$5,000,001 or more
	WELLS FARGO BANK	HOME EQUITY LINE OF CREDIT			X				
	LUGI VERAOLA	LOAN SECURED BY RESIDENCE	X						
	DEARBORN FEDERAL CREDIT UNION								

SCHEDULE IV - POSITIONS

Report all positions, compensated or uncompensated, held on or before the date of filing during the current calendar year and in the two prior years as an officer, director, trustee of an organization, partner, proprietor, representative, employee, or consultant of any corporation, firm, partnership, or other business enterprise, any nonprofit organization, any labor organization, or any educational or other institution other than the United States. For further information, see Instructions, page 25.

EXCLUSIONS: Positions held in any religious, social, fraternal, or political entities, and positions solely of an honorary nature need not be shown.

Position	Name of Organization

Use additional sheets if more space is required.

Los Angeles Times

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Sunday, April 5, 1992

Long Beach; PART-J; Zones Desk

Candidates Find Campaign Funds Are Slim Pickings Politics: Challengers are at more of a disadvantage than usual as the recession tightens contributors' purse strings.

TINA GRIEGO

TIMES STAFF WRITER

The way state Senate candidate John Ward figures it, even in the best of times he could not wage a dollar-for-dollar campaign against incumbent Sen. Robert G. Beverly, who has more than \$400,000 socked away in his campaign account.

And these are not the best of times.

Recession-embattled campaign contributors are keeping a tight grip on their wallets at the same time dozens of candidates are clamoring for cash.

"Times are tough," said Ward, a Lakewood furniture store owner. "My average contribution is \$35. It would be great if some people would give me \$1,000 now and then, but so far only my mother has done that."

Candidates in state legislative races throughout Southeast Los Angeles County report the same thing: While it's never been easy to part supporters from their dollars, these days it's especially difficult.

"Let's face it, everyone is having a hard time," said 50th District Assembly candidate Martha Escutia. "We have a recession here . . . and there are simply too many people running at the same time, going after the same money tree."

Escutia and other candidates estimate they will need at least \$100,000 to fend off challengers in the June 2 primary. As a result, she and many other candidates have borrowed money to get their campaigns off the ground.

According to campaign disclosure statements filed recently with the Los Angeles County registrar-recorder, half of the 38 candidates running in the six Assembly districts and two state Senate districts that encompass Long Beach and other Southeast cities have taken out loans ranging from \$1,400 to nearly \$100,000.

Of the \$105,574 that Norwalk City Councilwoman Grace Musquiz Napolitano has raised in her bid to gain the Democratic nomination for 58th District Assembly seat, \$99,000 is a loan from Councilman Luigi A. Vernola. Napolitano said she has put up her home as collateral.

"I took out a second mortgage on my house," Napolitano explained. "I'm putting my money where my mouth is. If you feel strong enough about something, then you will put everything at your disposal together, and I feel I'm a viable candidate in this race. I've paid my dues."

The loan gives Napolitano a larger war chest than any of her opponents.

Political consultants say it is not unusual for candidates to borrow money-in many cases from themselves or family members-to get a campaign rolling.

However, borrowing money has definitely become a trend in this campaign, said political consultant Todd Jones. "In this election cycle, the money is just not there."

Even the incumbents are crying poor, despite the fact that for the first three months of this year, many have received thousands of dollars from political action committees, trade and business associations.

"There is only so much money out there, and everyone gets a little less," Assemblyman Gerald Felando said.

Al Pross, executive director of the California Medical Assn.'s PAC, said there have been so many pleas for contributions that candidates will be receiving smaller contributions from the PAC this year.

Challengers have little sympathy for the incumbents, questioning



FEDERAL ELECTION COMMISSION
Washington, DC 20463

MEMORANDUM

TO: LAWRENCE M. NOBLE
GENERAL COUNSEL

FROM: MARJORIE W. EMMONS/LISA R. DAVIS
COMMISSION SECRETARY

DATE: MARCH 5, 1999

SUBJECT: MUR 4749 - First General Counsel's Report
dated February 26, 1999.

The above-captioned document was circulated to the Commission
on Monday, March 01, 1999.

Objection(s) have been received from the Commissioner(s) as
indicated by the name(s) checked below:

Commissioner Elliott	—
Commissioner Mason	—
Commissioner McDonald	<u>XXX</u>
Commissioner Sandstrom	—
Commissioner Thomas	<u>XXX</u>
Commissioner Wold	—

This matter will be placed on the meeting agenda for

Wednesday, March 10, 1999.

Please notify us who will represent your Division before the Commission on this matter.